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Message Text

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60
ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-03 FRB-01

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-01 OPIC-02 SP-02

CIEP-01 LAB-01 SIL-01 OMB-01 NSC-07 SS-14 STR-01

CEA-01 L-02 H-01 PA-01 PRS-01 USIA-04 DRC-01 /073 W
---------- 062061
R 092000Z OCT 74
FM AMEMBASSY SAN JOSE
TO SECSTATE WASHDC 8314
INFO AMEMBASSY GUATEMALA
AMEMBASSY SAN SALVADOR
AMEMBASSY TEGUCIGALPA
AMEMBASSY MANAGUA

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E.O. 11652: N/A
TAGS: EFIN CS
SUBJECT: DISCUSSION WITH FINANCE MINISTER ON MONETARY MATTERS

1. SUMMARY: DISCUSSION WITH FINANCE MINISTER MORERA INDICATES THAT THE COSTA RICAN GOVERNMENT IS AWARE THAT MEASURES IT HAS TAKEN TO DEAL WITH THE CURRENT DIFFICULT BALANCE OF PAYMENTS SITUATION DO NOT REALLY GO TO THE HEART OF THE PROBLEM--EXCESSIVE IMPORTATION. TOTAL IMPORTS FOR THE YEAR ARE EXPECTED TO BE 50 PERCENT HIGHER THAN LAST YEAR, BUT IN MORERA'S OPINION IT IS ALREADY TOO LATE FOR IMPORT RESTRICTIONS, IF THEY ARE IMPOSED, TO

HAVE MUCH EFFECT. COSTA RICA WILL PROBABLY HAVE TO ENGAGE IN ADDITIONAL FOREIGN BORROWING BEFORE THE END OF THE YEAR, AND MAY ALSO TAKE SOME ADDITIONAL MEASURES THIS MONTH TO DEAL WITH A BALANCE OF PAYMENTS DEFICIT. END SUMMARY.
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2. CHARGE AND VISITING DEPARTMENT OFFICER SULLIVAN (ARA/CEN) CALLED ON FINANCE MINISTER MORERA OCTOBER 9 FOR A GENERAL DISCUSSION OF COSTA RICAN ECONOMIC SITUATION.

3. MORERA SAID THAT HE NOW HAS FOUR PRINCIPAL PROBLEMS: ONE, COSTA RICA'S SERIOUS BALANCE OF PAYMENTS DEFICIT; TWO, A HIGH RATE OF INFLATION; THREE, STRONG PRESSURE FOR A SUBSTANTIAL INCREASE IN SALARIES; AND FOUR, THE DIFFICULTY OF SELLING GOVERNMENT BONDS.

4. CONCERNING THE BALANCE OF PAYMENTS, MORERA SAID THAT IT IS TOO EARLY TO TELL WHETHER MEASURES TAKEN TO IMPROVE THE CAPITAL ACCOUNT WILL HAVE THE DESIRED EFFECT. HE SAID THAT THE HIGHER INTEREST RATES AND RESTRICTIONS ON "SPECULATIVE" MOVEMENTS OF CAPITAL ARE MAINLY DESIGNED TO KEEP COSTA RICAN CAPITAL WITHIN THE COUNTRY, ALTHOUGH ANY BENEFICIAL EFFECT THE ACTIONS MIGHT ALSO HAVE IN ATTRACTING CAPITAL FROM ABROAD WOULD OF COURSE BE WELCOME. MORERA STATED, HOWEVER, THAT COSTA RICA'S REAL BALANCE OF PAYMENTS PROBLEM CONCERNS NOT THE CAPITAL ACCOUNT BUT THE CURRENT ACCOUNT. MEASURES TAKEN SO FAR TO IMPROVE THE TRADE ACCOUNT ARE DIRECTED TOWARD STIMULATING EXPORTS, BUT MORERA ADMITTED THAT THIS IS AN ACTION THAT COULD ONLY HAVE ITS EFFECT IN THE MEDIUM TERM.

5. FINDING A MEANS TO DEAL WITH THE PROBLEM OF "EXCESSIVE IMPORTS" IS THE HEART OF THE BALANCE OF PAYMENTS PROBLEM. MORERA SAID THAT COSTA RICA'S IMPORTS THIS YEAR ARE EXPECTED TO BE 50 PERCENT HIGHER THAN LAST YAZR AND TO TOTAL $600 $700 MILLION. MORERA SAID IT IS PROBABLE TOO LATE THIS YEAR TO THINK OF RESTRICTING IMPORTS AS ORDERS HAVE ALREADY BEEN PLACED AND GOOD ARE IN TRANSIT TO COSTA RICA FOR THE HEAVY PRE-CHRISTMAS IMPORT SEASON. IF THE GOVERNMENT WANTED TO IMPOSE RESTRICTIONS IT SHOULD HAVE DONE SO IN AUGUST, HE SAID. THE GOVERNMENT'S PROGRAM TO DEAL WITH THE BALANCE OF PAYMENTS SITUATION IS PROCEEDING ON A STEP-BY-STEP BASIS AND MORERA AGREED THAT ADDITIONAL MEASURES WOULD PROBABLY BE FORTHCOMING THIS MONTH. HE ALSO AGREED THAT ADDITIONAL BORROWING BY THE GOVERNMENT WOULD PROBABLY BE NECESSARY BEFORE THE END OF THE YEAR,
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BUT HE AVOIDED ANSWERING A QUESTION AS TO WHETHER THE GOCR WOULD WANT TO SEEK A LOAN FROM THE IMF OR FROM PRIVATE BANKING SOURCES.

6. MORERA DID NOT GO INTO THE INFLATION PROBLEM IN DETAIL AS ITS GENERAL NATURE IS BY NOW WELL KNOWN TO EVERYONE. HE SAID, HOWEVER, IT WAS GREATLY COMPLICATING THE GOVERNMENT'S EFFORTS TO HOLD DOWN THE LEVEL OF THE BUDGET. GIVEN COSTA

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RICA'S HIGH RATE OF INFLATION (OVER 40 PERCENT THIS YEAR)
THE FACT THAT THE GOVEREQMENT'S BUDGET PROPOSAL FOR 1975 IS
ONLY 12 PERCENT HIGHER THAN 1974'S BUDGET INDICATES A
STRONG AUSTERITY EFFORT BY THE GOVERNMENT, AND IN FACT A
NET RUDUCTION IN SPENDING IN REAL TERMS. MORERA THINKS
THAT IS IS IMPORTANT PSYCHOLOGICALLY FOR THE GOVERNMENT TO
CREATE AN ATMOSPHERE OF AUSTERITY. IT IF WISHES TO SEE THE
PRIVATE SECTOR AVOID EXCESS SPENDING, THE GOVERNMENT ITSELF
MUST BE SEEN TO REDUCE ITS EXPENDITURES.

7. ON THE REVENUE SIDE, MORERA HINTED AT THE POSSIBILITY
OF AN INCREASE IN INCOME TAXES. HE ALSO SAID HE WOULD LIKE
TO RETAIN THE EXISTING TAXES ON EXPORTS, AT LEAST FOR THE
PRESENT, BECAUSE THE GOVERNMENT NEEDS THE REVENUE THEY
GENERATE. HE ADMITTED THAT IN THEORY THE CASE FOR ELIMINA-
TION OF TAXES ON EXPORTS IS A STRONG ONE, BUT HE SAID HE HAS
EXPLAINED TO THE PRIVATE INTERESTS INVOLVED THE DIFFICULTY
THE GOVERNMENT WOULD HAVE IN ELIMINATING EXPORT TAXES AT
THIS TIME. HE DESCRIBED THE BANANA TAX AS ANOTHER DIFFI-
CULT PROBLEM, BUT ONE WITH WHICH HE WAS NOT IMMEDIATELY
INVOLVED.

8: COMMENT: OVER-ALL MORERA SHOWED CONCERN BUT NOT
EXCESSIVE CONCERN, ABOUT THE CURRENT ECONOMIC SITUATION OF
COSTA RICA. CLEARLY, HE CONSIDERS THAT NEASURES TAKEN THUS
FAR BY THE GOVERNMENT HAVE AT LEAST HAD THE EFFECT OF
RUDUCING APPREHENSIONS THAT WERE SO WIDESPREAD IN FINANCIAL
CIRCLES ABOUT A MONTH AGO. ONE COULD INFER FROM HIS GENERAL ATTI-
TUDE AND HIS COMMENTS THAT IMPOSITION OF IMPORT CONTROLS
IS NOT IMMINENT. RATHER, COSTA RICA IS MORE LIKELY TO
TAKE SOME FURTHER LESS DRASTIC MEASURES AND TO BORROW
SUFFICIENT FUNDS TO GET THE COUNTRY THROUGH THE CHRISTMAS
SEASON. TOUGHER AUSTERITY MEASURES INCLUDING POSSIBLY
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IMPORT CONTROLS MIGHT BE MORE LIKELY AFTER CHRISTMAS. ON
THE OTHER HAND, MORERA ALSO GAVE THE IMPRESSION THAT THE
OGVERNMENT HAS NOT YET TAKEN DECISIONS ABOUT WHAT OTHER
STEPS IT WILL HAVE TO TAKE TO DEAL WITH THE BALANCE OF
PAYMENTS PROBLEM. THUS, IT IS TOO EARLY TO SAY WHAT THE
NATURE OF THOSE DECISIONS WILL BE.
OGG

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TAGS: EFIN, CS, (MORERA BATRES, PORFIRIO)
To: STATE
Type: TE
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